

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Shiawassee District Library</u>	County Shiawassee
Audit Date November 30, 2004	Opinion Date February 25, 2005	Date Accountant Report Submitted To State: April 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State Michigan	ZIP 48823
Accountant Signature <i>Plante & Moran, PLLC</i>			

Shiawassee District Library

**Financial Report
with Supplementary Information
November 30, 2004**

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Shiawassee District Library

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Independent Auditor's Report

To the Shiawassee District Library Board
Lansing, Michigan

We have audited the accompanying basic financial statements of Shiawassee District Library as of and for the year ended November 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Shiawassee District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Shiawassee District Library at November 30, 2004 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As discussed in Note I, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. The Library reports information on the modified accrual basis of accounting, as well as on the full accrual basis of accounting.

Plante & Moran, PLLC

February 25, 2005

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A worldwide association of independent accounting firms

Shiawassee District Library

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the Library as a whole financial statements under the full accrual method of accounting.
- The Library as a whole financial statement columns provide both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Shiawassee District Library

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table below shows key financial information in a condensed format:

Current assets	\$ 603,919
Capital assets	<u>329,828</u>
Total assets	933,747
Long-term liabilities	31,932
Other liabilities	<u>26,487</u>
Total liabilities	<u>58,419</u>
Net assets:	
Invested in capital assets - Net of debt	329,828
Unrestricted	<u>545,500</u>
Total net assets	<u><u>\$ 875,328</u></u>
Revenue:	
Property taxes	\$ 613,944
Other	<u>200,874</u>
Total revenue	814,818
Expenses - Library services	<u>759,733</u>
Change in net assets	<u><u>\$ 55,085</u></u>

Shiawassee District Library

Management's Discussion and Analysis (Continued)

The Library as a Whole

- The Library is reporting financial statements this year that meet the requirements of GASB 34. The primary change requires all assets at full cost less depreciation expense. This includes all Library materials, which were previously recorded a \$1 per item in the General Fixed Assets Account Group, which was generally accepted practice among libraries in Michigan.
- As a result of this change, the Library reports net assets of \$875,328 as compared to fund balances \$577,432 on the modified accrual basis of accounting.
- The Library's primary source of revenue is from property taxes. For 2004, total tax collections were \$613,944, which represents 75 percent of total revenue.
- Salaries and fringes continue to be a significant expense of the Library, representing 64 percent of the Library's total expenses. Having a full-time children's librarian on payroll for the full year after two partial years, the general 3 percent increase in salaries and wages, and the large rise in health care costs resulted in an overall increase of \$40,160 over the previous year (modified accrual method).
- Library materials, at \$105,803, are the second largest expenditure of the Library, representing 14 percent of the Library's total expenditures under the modified accrual basis.
- Total expenditures under the modified accrual method were \$772,587, an increase of 5 percent between the prior year and the current year, due primarily to grant-related expenditures which were offset by comparable revenues.
- The Library's conversion to meet GASB 34 standards, which includes capitalization of Library-owned assets and associated depreciation expense, as well as the increase in compensated absences expense, is reflected in the statement of activities on page 8 of this financial report.

Shiawassee District Library

Management's Discussion and Analysis (Continued)

The Library's Fund

Our analysis of the Library's General Fund is included on pages 7 and 8 in the first column of the respective statements. The fund column provides detailed information about the General Fund on a modified accrual basis of accounting, which is a short-term perspective measuring the flow of financial resources, not the Library's operations on a full accrual basis of accounting, which provides a longer-term measurement of total economic resources. The Library's only fund is the General Fund.

- The fund balance of the General Fund increased by \$42,231 for the year. This represents unspent revenue greater than expenses.
- The Library Board has designated funds to help manage money for specific purposes, such as building (furnishings) expansion, technology upgrades, and capital improvements.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments were related to adjustments in LSTA grant amounts as grant expenditures and reimbursements were reduced by the competitive bid process. This reduced both revenues and expenses.

Total personnel costs were less than originally projected, due primarily to a turnover of high seniority part-time personnel due to retirements, return to college, etc., with replacements being lower on seniority steps, a custodian who could not work a full schedule due to another full-time job, and a reduction in life and long-term disability costs due to a change in carriers to a MERS-based alternative, which is currently saving some 56 percent on monthly premium costs.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$329,828 invested in furniture, equipment, and books and materials. In 2004, the Library added approximately \$105,803 in new collection items consisting mainly of books, video materials, audio books, and music CDs.

Purchase of a new circulation desk at Durand and repainting of Owosso's Children's Department shelving improved general appearances. Carpet and blind replacement in the Adult Department was postponed due to lack of time.

The Library carries no long-term debt other than compensated absences.

Shiawassee District Library

Management's Discussion and Analysis (Continued)

Next Year's Millage Rates

On August 25, 2004, the Library Board approved an operating millage rate of 1.2161 mills per thousand dollars of taxable value. This will generate an estimated \$636,000 in property tax revenue, based on the current taxable value of property in the Library District.

Shiawassee District Library

Governmental Fund Balance Sheet/Statement of Net Assets November 30, 2004

	General Fund - Modified Accrual Basis	Adjustments (Note 8)	Statement of Net Assets - Full Accrual Basis
Assets			
Cash (Note 2)	\$ 197,540	\$ -	\$ 197,540
Investments (Note 2)	406,105	-	406,105
Due from other governmental units	274	-	274
Capital assets (Note 3)	-	329,828	329,828
Total assets	<u>\$ 603,919</u>	329,828	933,747
Liabilities			
Accounts payable and accrued liabilities	\$ 26,487	-	26,487
Accumulated employee benefits (Note 4)	-	31,932	31,932
Total liabilities	26,487	31,932	<u>58,419</u>
Fund Balance/Net Assets			
Fund balances - Unreserved:			
Designated for:			
Retirement reserve	3,000	(3,000)	-
Building expansion	92,500	(92,500)	-
Durand lease	2,500	(2,500)	-
Penal fines stabilization fund	116,800	(116,800)	-
Digitalization projects	5,100	(5,100)	-
Literacy support	825	(825)	-
Equipment replacement	15,000	(15,000)	-
Budgeted working capital	100,000	(100,000)	-
Undesignated	241,707	(241,707)	-
Total fund balance	<u>577,432</u>	<u>(577,432)</u>	-
Total liabilities and fund balance	<u>\$ 603,919</u>	<u>(545,500)</u>	
Net assets:			
Investment in capital assets		329,828	329,828
Unrestricted		<u>545,500</u>	<u>545,500</u>
Total net assets		<u>\$ 875,328</u>	<u>\$ 875,328</u>

Shiawassee District Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended November 30, 2004

	General Fund - Modified Accrual Basis	Adjustments (Note 8)	Statement of Activities - Full Accrual Basis
Revenue			
Property tax revenue	\$ 613,944	\$ -	\$ 613,944
Grant	27,218	-	27,218
Penal fines	104,658	-	104,658
State aid	25,461	-	25,461
Single business tax	10,985	-	10,985
Fines and fees	14,682	-	14,682
Rental revenue	6,070	-	6,070
Interest income	8,166	-	8,166
Donation income	3,588	-	3,588
Miscellaneous revenue	46	-	46
Total revenue	814,818	-	814,818
Expenditures			
Salaries and wages	387,256	2,503	389,759
Compensated absences	3,076	-	3,076
Payroll taxes	29,747	-	29,747
Employee benefits	65,161	-	65,161
Pension	624	-	624
Supplies	16,026	-	16,026
Professional services	25,499	-	25,499
Membership and dues	1,953	-	1,953
Education and training	5,199	-	5,199
Capital outlay - Equipment	14,313	(9,359)	4,954
Utilities	19,910	-	19,910
Maintenance and repairs	20,519	-	20,519
Library materials	105,803	(76,263)	29,540
Postage	5,096	-	5,096
State aid	25,425	-	25,425
Insurance	13,697	-	13,697
Depreciation	-	70,265	70,265
Other	33,283	-	33,283
Total expenditures	772,587	(12,854)	759,733
Excess of Revenue Over Expenditures/Change in Net Assets	42,231	12,854	55,085
Fund Balance/Net Assets - Beginning of year	535,201	285,042	820,243
Fund Balance/Net Assets - End of year	<u>\$ 577,432</u>	<u>\$ 297,896</u>	<u>\$ 875,328</u>

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of Shiawassee District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant account policies:

Reporting Entity

Effective July 1, 1994, the City of Owosso, the City of Durand, and Bennington, Owosso, and Rush Townships signed a district library agreement, creating the Shiawassee District Library. The Library is comprised of all the territory that is currently located in the jurisdictional limits of the Township of Bennington, the Township of Owosso, the Township of Rush, the City of Durand, and the City of Owosso. The Library is funded through property taxes, fines, fees, grants, state aid, and donations. The voters of the districts approved a 1.25 mill tax for a 10-year period, which begins with a tax levy effective December 31, 2002. This millage provides for funding of Library operations through December 1, 2011.

The Library is governed by an eight-member Board. The Board consists of three members appointed by the City of Owosso, two members appointed by the City of Durand, and one member appointed by each of the townships. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's operations are accounted for in a General Fund. The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses.

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

In addition to presenting information for the General Fund on a modified accrual basis, the statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Financial Statement Amounts

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1 based on the taxable valuation of the property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Capital Assets - Generally, capital assets are defined by the Library with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Library books which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$5,000 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred.

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Depreciation on such capital assets is charged as an expense against the operations on a straight-line basis over the following estimated useful lives:

Furniture and equipment	3-10 years
Library books and materials	7 years

Compensated Absences - It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. There is no liability for unused accumulated vacation and personal days since the Library does not have a policy to pay any amounts when employees separate from service with the Library. All sick pay is accrued when incurred in the full accrual basis statement of net assets.

Property Taxes - Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2003 tax is levied and collectible on December 1, 2003, and is recognized as revenue in the year ended November 30, 2004, when the proceeds of the levy are budgeted and available for the financing operations. The 2003 taxable value of the district totaled \$511 million (a portion of which is not captured from all jurisdictions), on which taxes levied consisted of 1.2247 mills for operating purposes. This resulted in \$613,944 recognized as property tax revenue.

Fund Equity - In the General Fund financial statements, the Library reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Accounting Change - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments*, issued in June 1999. Shiawassee District Library has implemented GASB Statement No. 34, along with all related statements and interpretations, effective December 1, 2003. Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.
- Financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided.
- Capital assets in the statement of net assets includes assets totaling \$329,828, previously accounted for by the Library in the General Fixed Assets Account Group.
- The statement of net assets includes compensated absences totaling \$31,932, previously reported in the General Long-term Debt Account Group.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 2 - Deposits

Michigan Compiled Law Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; banker's acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library has designated six banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments as allowed by authority as listed above. The Library's deposits and investments policy is in accordance with statutory authority.

The Library's deposits at November 30, 2004 are included on the balance sheet under the following classifications:

	Balance Sheet Classification		
	Cash	Investments	Total
Deposits	<u>\$ 197,540</u>	<u>\$ 406,105</u>	<u>\$ 603,645</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits-in-transit) at \$615,684. Of that amount, \$500,000 was covered by federal depository insurance and \$115,684 was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 3 - Capital Assets

A summary of the changes in capital assets follows:

Capital Assets Being Depreciated	Balance December 1, 2003	Additions	Deletions	Balance November 30, 2004
Furniture and equipment	\$ 235,893	\$ 9,359	\$ -	\$ 245,252
Library books and materials	<u>976,081</u>	<u>76,263</u>	<u>-</u>	<u>1,052,344</u>
Total	1,211,974	85,622	-	1,297,596
Accumulated depreciation	<u>(897,503)</u>	<u>(70,265)</u>	<u>-</u>	<u>(967,768)</u>
Net book value	<u>\$ 314,471</u>	<u>\$ 15,357</u>	<u>\$ -</u>	<u>\$ 329,828</u>

Shiawassee District Library leases buildings from the City of Owosso and the City of Durand at a nominal amount.

Note 4 - Long-term Debt

A summary of the debt outstanding at the Library is as follows:

	Balance December 1, 2003	Additions	Deletions	Balance November 30, 2004
Compensated absences	<u>\$ 29,429</u>	<u>\$ 2,503</u>	<u>\$ -</u>	<u>\$ 31,932</u>

The compensated absences represent the estimated liability to be paid to employees under the Library's sick pay policy. The Library estimates that none of the above liability will be paid within the next year.

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 5 - Budget Information

The annual budget is prepared by Library management and adopted by the Library Board of Trustees; subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The General Fund budget has been approved on a activity basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library Board is included in the required supplementary information.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for employee medical benefits. The Library participates in the Michigan Municipal Risk Management Authority for property loss, torts, and errors and omissions claims. The Library and participates in the Michigan Municipal League program for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 7 - Pension Plan

Plan Description

The Library participates in the Michigan Municipal Employees' Retirement System, an agent, multiple-employer defined benefit pension plan that covers all full-time employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by Board approval and requires a contribution from employees of 6.00 percent of gross wages.

Annual Pension Cost

For the year ended November 30, 2004, the Library's annual pension cost was \$624, which was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial calculation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit. Both (a) and (b) include an inflation assumption of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

Trend Information

Fiscal year ended November 30:	2002	2003	2004
Annual pension cost	\$ -	\$ -	\$ 624
Percentage of annual pension cost contributed	100%	100%	100%
Net pension obligation	-	-	-

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 7 - Pension Plan (Continued)

Actuarial valuation as of December 31:	2001	2002	2003
Actuarial value of assets	\$ 1,027,173	\$ 1,072,403	\$ 1,152,412
Actuarial accrued liability (entry age)	\$ 961,091	\$ 1,054,484	\$ 1,122,788
Overfunded AAL	\$ (66,082)	\$ (17,919)	\$ (29,624)
Funded ratio	106.9%	101.7%	102.6%
Covered payroll	\$ 274,615	\$ 245,921	\$ 285,628

Note 8 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

The General Fund's fund balance and the net change in fund balance differs from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the General Fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

General Fund's Fund Balance - Modified accrual basis \$ 577,432

Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the General Fund	329,828
Compensated absences are included as a liability	<u>(31,932)</u>

Net Assets of the Library - Full accrual basis \$ 875,328

Shiawassee District Library

Notes to Financial Statements November 30, 2004

Note 8 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Changes in Fund Balances - Modified accrual basis	\$ 42,231
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	9,359
Library books and materials	76,263
Depreciation	(70,265)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the General Fund statements	(2,503)
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Changes in Net Assets of the Library - Full accrual basis	<u>\$ 55,085</u>
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Required Supplementary Information

Shiawassee District Library

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended November 30, 2004

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property tax revenue	\$ 614,300	\$ 613,800	\$ 613,944	\$ 144
Grant	67,500	27,200	27,218	18
Penal fines	74,400	95,125	104,658	9,533
State aid	25,050	25,450	25,461	11
Single business tax	10,975	10,975	10,985	10
Fines and fees	14,000	14,300	14,682	382
Rental revenue	4,800	5,900	6,070	170
Interest income	5,000	5,000	8,166	3,166
Donation income	4,500	3,550	3,588	38
Miscellaneous revenue	-	50	46	(4)
Total revenue	820,525	801,350	814,818	13,468
Expenditures				
Salaries and wages	400,300	400,300	387,256	13,044
Compensated absences	3,350	3,000	3,076	(76)
Payroll taxes	30,650	30,850	29,747	1,103
Employee benefits	68,850	66,650	65,161	1,489
Pension	3,250	1,100	624	476
Supplies	23,250	21,000	16,026	4,974
Professional services	27,700	27,950	25,499	2,451
Membership and dues	2,075	2,050	1,953	97
Education and training	6,300	5,900	5,199	701
Capital outlay - Equipment	15,800	14,400	14,313	87
Utilities	21,650	21,650	19,910	1,740
Maintenance and repairs	20,475	21,975	20,519	1,456
Library materials	110,650	110,800	105,803	4,997
Postage	9,800	7,200	5,096	2,104
State aid	25,050	25,450	25,425	25
Insurance	15,600	13,800	13,697	103
Other	67,500	34,675	33,283	1,392
Total expenditures	852,250	808,750	772,587	36,163
Excess of Revenue Over (Under) Expenditures	(31,725)	(7,400)	42,231	49,631
Fund Balance - Beginning of year	433,144	535,201	535,201	-
Fund Balance - End of year	<u>\$ 401,419</u>	<u>\$ 527,801</u>	<u>\$ 577,432</u>	<u>\$ 49,631</u>

To the Board Members
Shiawassee District Library

We recently completed our audit of the November 30, 2004 financial statements of Shiawassee District Library. In addition to our report on the financial statements, we would like to present the following matters as potential opportunities for improvements to the internal controls and efficiency of your organization, as well as informational items relevant to the Library.

GASB 34 Implementation

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Preparing for this new reporting model has been a long and arduous process for the Library's staff.

Although there are many differences with this new reporting model, the major additions are as follows:

- *Government-wide Financial Statements:* These additional statements adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Library from a longer term perspective. These statements show capital assets, as well as long-term debt, as part of the Library's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the Library as compared to the final amended budget, but also as compared to the originally adopted budget.

The GASB believes this new model will provide a more complete picture of the financial position of governmental entities. If you desire, we would be happy to schedule a time to provide a more detailed overview of this new reporting model so that you can obtain the greatest benefit from it.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, capital assets tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the Library staff and the auditors. To continue to strive for complete and accurate fixed asset records we recommend procedures should be implemented that would facilitate the reporting and accounting for capital assets, including disposals, especially books and materials.

To the Board Members
Shiawassee District Library

Capitalization Policy

The Library has set up a capitalization policy to properly capitalize any fixed assets and materials which have over two years of useful life. The current policy sets the minimum requirement for individual items at a cost of \$5,000. During the GASB 34 conversion, we noted that very few items would be capitalized from the previous fixed asset listing if the capitalization policy was strictly applied at a per item limit of \$5,000. Adjustments were made by management during the conversion process to capitalize similar items together as a capital asset. We recommend the Library re-evaluate the current policy to allow for a capitalization policy for aggregate items in the future.

Cash Receipts

During our testing of cash receipts in the main library, we noted that the branch library deposits their cash receipts about every two weeks. It is our understanding the cash on hand is at a minimal amount and the main library reviews cash receipts from the branch library monthly. We recommend as the volume or scope of cash receipts increase, deposits should be made more often.

Property Tax Revenue Reconciliation

During our audit, we noted there are differences between the expected property tax revenue and actual receipts of property tax income. We understand a majority of the difference is due to the local tax authorities capturing a portion of the property tax revenue for development activities. We recommend the Library complete a reconciliation, once the final settlements are received, between the expected revenue and actual receipts to ensure any difference is explained and expected.

We are grateful for the opportunity to be of service to the Shiawassee District Library. Should you have any questions regarding the implementations of these comments, please do not hesitate to call.

Plante & Moran, PLLC

February 25, 2005